



Testimony of Denise L. Nappier
Treasurer of the State of Connecticut

SUBMITTED TO THE COMMITTEE ON GOVERNMENT ADMINISTRATION & ELECTIONS
FEBRUARY 7, 2011

Senator Slossberg, Representative Morin, and members of the Committee on Government Administration and Elections, thank you for the opportunity to offer testimony in support of **Raised Bill No. 881, *An Act Concerning the Powers of the State Treasurer and Divestment of State Funds Invested in Companies Doing Business in Iran.***

There are three, distinct components of this bill. The first component is administrative in nature, and is set forth in sections 1 and 2 of the bill.

Section 1 would clarify the Treasurer's authority to retain investment personnel to assist in carrying out the constitutional and statutory duties related to investment activity beyond pension funds. These positions would be subject to approval by the Department of Administrative Services and the Office of Policy and Management.

Current law grants the Treasurer authority to appoint investment officers and other personnel to assist the chief investment officer for the State's pension funds. Whenever there has been a need for personnel with necessary investment skill sets in other divisions of the Treasury, the statutory authority required to make an appointment has to be, in the opinion of the Auditors of Public Accounts, explicit.

Other divisions where these skills are currently utilized include Cash Management and the Unclaimed Property Division of the Treasury. At one time, our Short Term Investment Fund was under the purview of the Pension Funds Management Division, but was transferred years before I became State Treasurer. Additionally, as the Unclaimed Property Division spent more time reconciling securities held by the State on behalf of others, it was determined that investment related competencies, such as securities valuation and accounting, was necessary. All of the positions in question were established by approval of the Department of Administrative Services and the Office of Policy and Management. The positions are also recognized in the Legislative Budget document.

Notwithstanding the fact that all of these positions have been established through the State personnel process, the Auditors have taken the position that more explicit statutory authority than is found in current statute is required. The bill before you seeks to reflect more clearly how the Treasury is organized today. Passage of this bill would in no way give the Treasurer any more discretion in hiring employees than currently exists and would not authorize the addition of any positions.

Section 2 of the bill would clarify an ambiguity in statutory language passed in 2009 that relates to the appointment of personnel within the pension funds management division of the Treasury. The 2009 amendment allowed for appointment of a deputy chief investment officer; but it was amended in such a way as to create grounds for the Auditors of Public Accounts to

believe that the advice and consent of the IAC was required for all personnel appointments within PFM – not just the chief investment officer and deputy chief investment officer, as intended.

The second component of the bill is more expansive in terms of its policy implications for the manner in which pension fund assets are managed by the State.

Section 3 is closely modeled after a bill co-sponsored by Senator Slossberg in 2006 – now codified in Connecticut statute -- that allows for divestment from companies doing business in Sudan. In the face of extraordinarily egregious human rights abuses being perpetuated by the Government of Sudan, this General Assembly affirmed my authority as State Treasurer to begin a process of divestment of state funds from companies doing business in Sudan when deemed appropriate in accordance with statutory language governing the exercise of such action

The proposal before you would reaffirm that power, in this case to divest from companies doing business with the Republic of Iran – a country that continues to defy United Nations' sanctions concerning the development of nuclear capabilities. This legislation would bolster the exercise of our shareholder interests in companies to ensure that the long-term value of our holdings is not compromised by the actions of a rogue nation. At last count, nineteen states have passed laws regarding divestment of state pension assets from companies that invest directly in Iran, and several more are considering similar action. Connecticut ought to be among those taking definitive action.

This Iran proposal is the result of collaboration with Robert Fishman of the Jewish Federation Association of Connecticut, as well as Benjamin Krasna, Deputy Consul General of Israel in New York, among others.

As principal fiduciary of our state's \$24 billion pension and trust funds, I have worked diligently, and successfully, to engage companies in which we invest to do better. We have followed that approach on a range of corporate governance issues, from the risks associated with climate change to executive compensation, from board independence and diversity to corporate accounting practices -- issues that are gaining support from shareholders worldwide.

As a state, Connecticut was at the forefront of efforts, decades ago, to end apartheid in South Africa. We continue to be at the forefront ensuring compliance with the MacBride Principles in Northern Ireland. And our efforts with respect to companies doing business in Sudan have yielded measurable results. We monitor well over one hundred companies doing business in Sudan, and alone or in concert with other institutional investors, we have directly engaged with upwards of 44 companies. As a result of our engagement efforts, we have divested from, or prohibited investment in, 13 companies. The value of that divestment stands at roughly \$15.5 million.

Of equal importance, we have affected the conduct of 31 companies doing business in Sudan -- some have ceased doing business there, and others have increased their humanitarian activities or improved their business practices to the benefit of local populations. This past year, we directly engaged, along with other institutional investors, with companies in the telecommunications and energy sectors in connection with the independence referendum in South Sudan. We urged these companies to use their efforts to ensure that voting was allowed to proceed peacefully; to prevent their companies from being used as a means to disrupt the voting by, for example, interrupting satellite and mobile phone communications. I am happy to report that the voting was conducted peacefully and without interruption.

With respect to Iran, we have reviewed our portfolio's exposure to companies doing business there and at the end of January 2011, our holdings had a market value of approximately \$310 million -- which represents roughly 4 percent of our international portfolio.

With respect to both Iran and Sudan, as with other corporate policy issues, I have maintained from the outset that divestment is a last resort. It will be preceded by efforts to engage constructively with companies whose practices or investments we question. And by engagement, I mean contacting the company directly to open a substantive and sustained dialogue that extends beyond one exchange. In my view, this approach gives Connecticut more leverage than simply selling its stock.

But sometimes discussion, engagement and dialogue may not be enough, and that may well be the case here.

In my view, public companies that ignore world opinion, that refuse to put pressure on the Republic of Iran and who are viewed as engaged in profiteering at the expense of our national interests, run the risk of becoming incapable of sustaining the value of Connecticut's investment.

That is why I am prepared to begin the process of divestment of those companies whose business ties in Iran have the net effect of supporting Iran's nuclear capabilities.

Specifically, this legislation would repeal section 3-13g of the general statutes -- a section that dates back to the American hostage crisis in 1980 -- which required the Treasurer to ensure that State funds were not invested in companies doing business in Iran. In its place, this legislation would authorize the Treasurer to divest, decide not to invest further, or not enter into any future investment, in any company doing business in Iran. This bill also makes clear that in making this decision, the Treasurer shall consider relevant facts and circumstances, such as whether a company's actions are related to humanitarian activities, or whether a company is acting at the behest of the United States government.

Section 4 of the raised bill includes language that would amend the Sudan statute to refine the definitions of "company" and "doing business" so that the activities of partially-owned subsidiaries would fall within the law's reach.

And lastly, the third component of the bill deals with the oversight of the largest pension plan sponsored by the State – the Teachers' Retirement Fund (TRF).

Section 5 would grant the Treasurer ex officio membership on the governing board of TRF. I respectfully offer this Committee additional language -- inadvertently left out of our initial request -- that would likewise grant a seat on to the Treasurer on the board governing the State Employees Retirement Fund (SERF).

The Treasurer, as you know, is principal fiduciary of the Connecticut Retirement Plans and Trust Funds – of which TRF is the largest at \$13.7 billion, followed by SERF at \$8.8 billion). I am obligated to manage these funds in such a way as to maximize return within acceptable levels of risk in order to help the State meet its obligations to its pension beneficiaries. Critical decisions about each plan -- including assumptions about how much investment income each plan will earn – are made by the governing boards of TRF and SERF. There have been legitimate grounds for serious concerns over the health of our State's pension plans, and I believe it is important to recognize the interrelatedness of assets and liabilities and bring together the policy-related functions of investment and benefits administration of each of these plans. This will help to facilitate more timely and informed decisions about each plans' long-term objectives.

With all of that said, I will close by noting that no aspect of this bill would have a general fund impact.

For all of these reasons, I urge your favorable consideration of Raised Bill 881.

ADDITIONAL LANGUAGE FOR S.B. 881
Submitted by the Office of the State Treasurer
February 7, 2011

SUMMARY OF PROPOSAL: This proposal would add the Treasurer as an *ex officio* member of the Connecticut State Employees Retirement Commission.

PROPOSED LANGUAGE: Subsection (a) of section 5-155a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*): (a) Members. The general administration and responsibility for the proper operation of the state employees retirement system is vested in a single board of trustees to be known as the Connecticut State Employees Retirement Commission. Notwithstanding the provisions of section 4-9a, the Retirement Commission shall consist of the following: (1) Six trustees representing employees who shall be appointed by the bargaining agents in accordance with the provisions of applicable collective bargaining agreements. The trustees representing employees shall not be members of the same bargaining unit. The trustees representing employees shall serve three-year terms; (2) six management trustees who are members of the state employees retirement system, who shall serve three-year terms. The management trustees shall be appointed by the Governor; (3) two actuarial trustees who are enrolled actuaries and Fellows of the Society of Actuaries. One actuarial trustee shall be nominated by the management trustees and one shall be nominated by the trustees representing employees. The Governor shall appoint the actuarial trustees for three-year terms; (4) one neutral trustee who shall be chairman of the State Employees Retirement Commission; and (5) the Treasurer or her designee, who shall be members of the board, ex officio. Such neutral trustee shall be enrolled in the National Academy of Arbitrators and shall be nominated by the employee and management trustees and appointed by the Governor. The neutral trustee shall serve a two-year term. If a vacancy occurs in the office of a trustee, the vacancy shall be filled for the unexpired term in the same manner as the office was previously filled. The trustees, with the exception of the chairman and the actuarial trustees, shall serve without compensation but shall be reimbursed in accordance with the standard travel regulations for all necessary expenses that they may incur through service on the commission. The chairman and the actuarial trustees shall be compensated at their normal and usual per diem fee, plus travel expenses, from the funds of the retirement system for each day of service to the commission. Each trustee shall, within ten days after appointment or election, take an oath of office that so far as it devolves upon the trustee, the trustee will diligently and honestly administer the affairs of the commission, and will not knowingly violate or willingly permit to be

violated any of the provisions of law applicable to the state retirement system. Each trustee's term shall begin from the date the trustee takes such an oath. The trustees shall appoint a representative from among the municipalities that have accepted the provisions of part II of chapter 113, who shall serve as a municipal liaison to the commission, at the commission's pleasure and under such terms and conditions as the commission may prescribe. Each trustee shall be entitled to one vote on the commission. A majority of the commission shall constitute a quorum for the transaction of any business, the exercise of any power or the performance of any duty authorized or imposed by law. The Retirement Commission shall be within the Retirement Division of the office of the Comptroller for administrative purposes only. The Comptroller, ex officio, shall be the nonvoting secretary of the commission and shall provide secretariat support to the commission.